

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ishpeming Housing Commission	County Marquette
Fiscal Year End 12-31-2005	Opinion Date 8-10-2006	Date Audit Report Submitted to State 9-20-2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

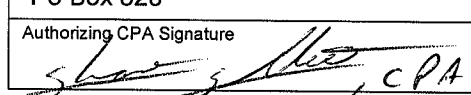
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	n/a	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-774-4300	
Street Address Po Box 828		City Iron Mountain	State MI
Zip 49801			
Authorizing CPA Signature 	Printed Name Shane M. Ellison, CPA	License Number 263063	

ISHPEMING HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended December 31, 2005

ISHPEMING HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Ishpeming Housing Commission
Ishpeming, Michigan

We have audited the accompanying financial statements of the business-type activities of the Ishpeming Housing Commission as of and for the year ended December 31, 2005, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Ishpeming Housing Commission as of December 31, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006 on our consideration of the Ishpeming Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Ishpeming Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

August 10, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Ishpeming Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$5,020,600 at December 31, 2005 compared to \$5,193,230 at December 31, 2004.
- The Commission's operating revenues totaled \$517,201 for December 31, 2005 and \$506,132 for December 31, 2004, while operating expenses totaled \$710,795 for December 31, 2005 and \$723,239 for December 31, 2004.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at December 31, 2005 decreased \$(172,630) from December 31, 2004.

Table 1

NET ASSETS

	December 31,	
	2005	2004
Assets		
Current assets	\$ 1,075,466	\$ 1,017,004
Capital assets (net)	<u>4,080,348</u>	<u>4,337,966</u>
Total assets	<u>5,155,814</u>	<u>5,354,970</u>
Liabilities		
Current liabilities	118,657	146,628
Noncurrent liabilities	<u>16,557</u>	<u>15,112</u>
Total liabilities	<u>135,214</u>	<u>161,740</u>
Net Assets		
Invested in capital assets, net of related debt	4,080,347	4,337,966
Unrestricted	<u>940,253</u>	<u>855,264</u>
Net Assets	<u>\$ 5,020,600</u>	<u>\$ 5,193,230</u>

Net assets of the Commission stood at \$5,020,600 at December 31, 2005 compared to \$5,193,230 at December 31, 2004. Unrestricted net business assets were \$940,253 compared to \$855,264 at December 31, 2004. In general, the Commission's unrestricted net assets are used to fund operations of the Commission. The increase in current assets was largely due to an increase in cash and investments while the decrease in liabilities was primarily due to a decrease in accrued payment in lieu of taxes.

Table 2**CHANGE IN NET ASSETS**

	Year Ended December 31,	
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 346,632	\$ 330,181
Program grants and subsidies	166,294	203,935
General revenues:		
Other revenues	8,563	9,537
Unrestricted investment earnings	<u>16,676</u>	<u>22,852</u>
 Total revenues	 538,165	 566,505
 Program Expenses:		
Operating expenses	<u>710,795</u>	<u>723,239</u>
 Change in net assets	 (172,630)	 (156,734)
 Net assets - beginning of period	 <u>5,193,230</u>	 <u>5,349,964</u>
 Net assets - end of period	 <u>\$ 5,020,600</u>	 <u>\$ 5,193,230</u>

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$538,165 compared to \$566,505 during December 31, 2004. The Commission's average unit months leased on a monthly basis had increased during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. The decrease in operating expenses is largely due to a decrease in administrative expenses.

CAPTIAL ASSETS

Capital Assets

The Commission had \$7,708,321 invested in a variety of capital assets including land, equipment and buildings at December 31, 2005 compared to \$7,704,466 at December 31, 2004.

Table 3

CAPITAL ASSETS Business - Type Activity

	December 31,	
	2005	2004
Land and improvements	\$ 864,773	\$ 864,773
Building and improvements	6,629,289	6,629,289
Equipment	213,531	210,404
Contruccion in progress	<u>728</u>	<u>-</u>
Total	7,708,321	7,704,466
Less accumulated depreciation	<u>(3,627,973)</u>	<u>(3,366,500)</u>
NET CAPITAL ASSETS	<u>\$4,080,348</u>	<u>\$4,337,966</u>

The Commission invested \$6,443 in capital assets during the year ended December 31, 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the calendar year 2006. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2006 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Evelyn Valente-Heikkila, at 111 Bluff Street, Ishpeming, Michigan 49849, or call 906-485-4100.

ISHPEMING HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

December 31, 2005

CURRENT ASSETS:

Cash and equivalents	\$ 282,009
Accounts receivable	724
Investments	777,816
Prepaid expenses	<u>14,917</u>

TOTAL CURRENT ASSETS	<u>1,075,466</u>
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NONCURRENT ASSETS:

Capital assets	7,708,321
Less accumulated depreciation	<u>(3,627,973)</u>

NET CAPITAL ASSETS	<u>4,080,348</u>
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TOTAL ASSETS	<u>5,155,814</u>
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CURRENT LIABILITIES:

Accounts payable	23,107
Accrued liabilities	<u>95,550</u>

TOTAL CURRENT LIABILITIES	118,657
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NONCURRENT LIABILITIES

	<u>16,557</u>
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TOTAL LIABILITIES	<u>135,214</u>
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NET ASSETS:

Investment in capital assets, net of related debt	4,080,347
Unrestricted net assets	<u>940,253</u>

NET ASSETS	<u>\$ 5,020,600</u>
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**ANDERSON, TACKMAN
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The accompanying notes to financial statements are an integral part of this statement.



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

ISHPEMING HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2005

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
BUSINESS-TYPE ACTIVITIES:				
Public Housing	\$ 710,795	\$ 346,632	\$ 162,201	\$ 4,093
				\$ (197,869)
General revenues:				
Unrestricted investment earnings				16,676
Other				8,563
Total general revenues				25,239
Changes in net assets				(172,630)
NET ASSETS, beginning of year				5,193,230
NET ASSETS, end of year				\$ 5,020,600

The accompanying notes to financial statements are an integral part of this statement.

ISHPEMING HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended December 31, 2005

OPERATING REVENUES:

Tenant revenue	\$ 346,632
Program grants-subsidies	162,201
Other income	<u>8,368</u>

TOTAL OPERATING REVENUES	<u>517,201</u>
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OPERATING EXPENSES:

Administration	146,923
Tenant services	267
Utilities	115,632
Maintenance	133,865
General	45,536
Other operating	4,511
Depreciation	<u>264,061</u>

TOTAL OPERATING EXPENSES	<u>710,795</u>
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OPERATING (LOSS)	<u>(193,594)</u>
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NONOPERATING REVENUES AND (EXPENSES):

Interest income	16,676
Capital grants	4,093
Gain on sale of capital assets	<u>195</u>

TOTAL NONOPERATING REVENUES AND (EXPENSES)	<u>20,964</u>
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CHANGE IN NET ASSETS	(172,630)
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NET ASSETS, BEGINNING OF YEAR	<u>5,193,230</u>
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NET ASSETS, END OF YEAR	<u><u>\$ 5,020,600</u></u>
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ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

ISHPEMING HOUSING COMMISSION

STATEMENT OF CASH FLOWS
Proprietary Fund

For the Year Ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 346,596
Cash received from grants and subsidies	165,350
Cash payments to suppliers for goods and services	(211,495)
Cash payments for wages and related benefits	(222,434)
Cash payments for payment in lieu of taxes	(40,673)
Other receipts	<u>13,335</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>50,679</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants	4,093
Acquisition of capital assets	(6,443)
Proceeds from sale of capital assets	<u>195</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,155)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(10,282)
Investment income	<u>16,636</u>

NET CASH PROVIDED FROM INVESTING ACTIVITIES	<u>6,354</u>
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NET INCREASE IN CASH AND EQUIVALENTS	54,878
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>227,131</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 282,009</u>
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**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income (loss)	\$ (193,594)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	264,061
Changes in assets and liabilities:	
Decrease (Increase) in receivables	8,080
Decrease (Increase) in prepaid expenses	(1,342)
Increase (Decrease) in accounts payable	(272)
Increase (Decrease) in accrued liabilities	<u>(26,254)</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 50,679</u>
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The accompanying notes to financial statements are an integral part of this statement.



ISHPEMING HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Ishpeming Housing Commission (Commission) was formed by the Ishpeming City Commission under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the City of Ishpeming.

The Commission manages 127 units of low rent public housing units of which, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Ishpeming Housing Commission, but the Commission is a component unit of the City of Ishpeming, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.





ISHPEMING HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and Statement of Cash Flows are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



ISHPEMING HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$500 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.

ISHPEMING HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on January 1st. The operating budget includes proposed expenses and the means of financing them. Prior to December 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31st.



ISHPEMING HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 100
Checking account	253,566
Savings account	<u>28,343</u>
TOTAL	<u>\$282,009</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As of December 31, 2005, the Commission held cash and equivalents in excess of insured limits in the amount of \$153,930 which were collateralized by Michigan Municipal Bonds with a fair market value of \$249,996 at December 31, 2005.

Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>		
		<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
Certificates of Deposit	<u>\$777,816</u>	<u>\$73,648</u>	<u>\$631,332</u>	<u>\$72,836</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Custodial Credit Risk. Custodial credit risk is the risk that in the even of a bank failure, the Commission's investments may not be returned. As of December 31, 2005 the Commission held investments in excess of insured limits in the amount of \$50,801 which were not collateralized.



ISHPEMING HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

Concentration of Credit Risk. The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The following balances below represent investments with a financial institution which exceeds 5% of total investments.

Peninsula Bank, Ishpeming, MI	\$ 41,668
Republic Bank, Ishpeming, MI	95,038
Wells Fargo Bank, Ishpeming, MI	<u>603,327</u>
Total	<u>\$740,033</u>

NOTE C - CAPITAL ASSETS

A summary of capital assets as of December 31, 2005 is as follows:

	Balance 1-1-05	Additions	Deletions	Balance 12-31-05
Land and improvements	\$ 864,773	\$ -	\$ -	\$ 864,773
Building and improvements	6,629,289	-	-	6,629,289
Equipment	210,404	5,715	(2,588)	213,531
Construction in progress	-	4,093	(3,365)	<u>728</u>
	7,704,466	<u>\$ 9,808</u>	<u>\$ (5,953)</u>	7,708,321
Accumulated depreciation	<u>(3,366,500)</u>	<u>\$ (264,061)</u>	<u>\$ 2,588</u>	<u>(3,627,973)</u>
Net capital assets	<u>\$4,337,966</u>			<u>\$4,080,348</u>

Depreciation expense for the year was \$264,061.

ISHPEMING HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E - USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended December 31, 2005 totaled \$538,165 of which \$166,294 or 30.9% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G - PENSION PLAN

The Commission has established a SEP-IRA plan of which the Commission contributes 9% of qualified wages. To be eligible, an employee must have twelve continuous months of service. The Commission contributions to the Plan during the year amounted to \$13,111.



**SUPPLEMENTAL
INFORMATION**

ISHPEMING HOUSING COMMISSION**FINANCIAL DATA SCHEDULE****Proprietary Fund**

December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 282,009	\$ -	\$ 282,009
100	Total cash	282,009	-	282,009
Accounts and notes receivables:				
122	Accounts receivable- HUD other projects	-	424	424
126	Accounts receivable- tenants	1,233	-	1,233
126.1	Allowance for doubtful accounts - tenants	(1,051)	-	(1,051)
129	Accrued interest receivable	118	-	118
120	Total receivables, net of allowances for doubtful accounts	300	424	724
Other current assets:				
131	Investments	777,816	-	777,816
142	Prepaid expenses	14,917	-	14,917
144	Interprogram due from	424	-	424
150	TOTAL CURRENT ASSETS	1,075,466	424	1,075,890
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	68,982	-	68,982
162	Buildings	6,621,793	7,496	6,629,289
163	Furniture, equipment & machinery - dwellings	80,787	-	80,787
164	Furniture, equipment & machinery - administration	129,379	3,365	132,744
165	Leasehold improvements	795,791	-	795,791
166	Accumulated depreciation	(3,626,514)	(1,459)	(3,627,973)
167	Construction in progress	-	728	728
160	Total fixed assets, net of accumulated depreciation	4,070,218	10,130	4,080,348
180	TOTAL NONCURRENT ASSETS	4,070,218	10,130	4,080,348
190	TOTAL ASSETS	\$ 5,145,684	\$ 10,554	\$ 5,156,238

See accompanying notes to financial statements



ISHPEMING HOUSING COMMISSION**FINANCIAL DATA SCHEDULE****Proprietary Fund**

December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 23,107	\$ -	\$ 23,107
321	Accrued wages / payroll taxes payable	11,581	-	11,581
322	Accrued compensated absences - current portion	6,250	-	6,250
333	Accounts payable - other government	20,224	-	20,224
341	Tenant security deposits	45,453	-	45,453
342	Deferred revenues	12,042	-	12,042
347	Interprogram due from	-	424	424
310	TOTAL CURRENT LIABILITIES	118,657	424	119,081
354	Accrued compensated absences - non current	16,557	-	16,557
350	TOTAL NONCURRENT LIABILITIES	16,557	-	16,557
300	TOTAL LIABILITIES	135,214	424	135,638
<u>NET ASSETS</u>				
508.1	Investment in capital assets, net of related debt	4,070,217	10,130	4,080,347
512.1	Unrestricted net assets	940,253	-	940,253
513	TOTAL NET ASSETS	5,010,470	10,130	5,020,600
600	TOTAL LIABILITIES AND NET ASSETS	\$ 5,145,684	\$ 10,554	\$ 5,156,238

See accompanying notes to financial statements



ISHPEMING HOUSING COMMISSION**FINANCIAL DATA SCHEDULE****Proprietary Fund**

For the Year Ended December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>REVENUES</u>				
703	Net tenant rental revenue	\$ 341,622	\$ -	\$ 341,622
704	Tenant revenue - other	5,010	-	5,010
705	Total tenant revenue	346,632	-	346,632
706	HUD PHA grants	161,084	1,117	162,201
706.1	Capital grants	-	4,093	4,093
711	Investment income - unrestricted	16,676	-	16,676
715	Other revenue	8,368	-	8,368
716	Gain/loss on sale of fixed assets	195	-	195
700	TOTAL REVENUE	532,955	5,210	538,165
<u>EXPENSES</u>				
Administrative:				
911	Administrative salaries	85,082	-	85,082
912	Auditing fees	3,100	-	3,100
914	Compensated absences	2,728	-	2,728
915	Employee benefit contributions- administrative	30,712	-	30,712
916	Other operating- administrative	24,184	1,117	25,301
	Total Administrative	145,806	1,117	146,923
Tenant services:				
924	Tenant services - other	267	-	267
Utilities:				
931	Water	27,515	-	27,515
932	Electricity	75,288	-	75,288
933	Gas	12,829	-	12,829
	Total Utilities	115,632	-	115,632
Maintenance:				
941	Ordinary maintenance and operations - labor	67,093	-	67,093
942	Ordinary maintenance and operations - materials & other	10,784	-	10,784
943	Ordinary maintenance and operations - contract costs	19,817	-	19,817
945	Employee benefit contributions- ordinary maintenance	36,171	-	36,171
	Total Maintenance	133,865	-	133,865

See accompanying notes to financial statements



ISHPEMING HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
	General expenses:			
961	Insurance premiums	24,821	-	24,821
963	Payments in lieu of taxes	20,224	-	20,224
964	Bad debts - tenant rents	491	-	491
	Total General Expenses	<u>45,536</u>	<u>-</u>	<u>45,536</u>
969	TOTAL OPERATING EXPENSES	<u>441,106</u>	<u>1,117</u>	<u>442,223</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>91,849</u>	<u>4,093</u>	<u>95,942</u>
971	Extraordinary maintenance	3,427	-	3,427
972	Casualty losses - non-capitalized	1,084	-	1,084
974	Depreciation expense	<u>262,602</u>	<u>1,459</u>	<u>264,061</u>
900	TOTAL EXPENSES	<u>708,219</u>	<u>2,576</u>	<u>710,795</u>
	Other financing sources (uses)			
1010	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ (175,264)</u>	<u>\$ 2,634</u>	<u>\$ (172,630)</u>
MEMO account information				
1103	Beginning equity	\$ 5,157,160	\$ 36,070	\$ 5,193,230
1104	Prior Period Adjustments, Equity Transfers	\$ 28,574	\$ (28,574)	\$ -
1120	Unit months available	1,524	-	1,524
1121	Number of unit months leased	1,515	-	1,515

See accompanying notes to financial statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Ishpeming Housing Commission
Ishpeming, Michigan

We have audited the financial statements of the business-type activities of the Ishpeming Housing Commission as of and for the year ended December 31, 2005, which collectively comprise the Ishpeming Housing Commission's basic financial statements, and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ishpeming Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ishpeming Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Ishpeming Housing Commission in a separate letter dated August 10, 2006.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

August 10, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

August 10, 2006

Board of Commissioners
Ishpeming Housing Commission
Ishpeming, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Ishpeming Housing Commission for the year ended December 31, 2005, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 10, 2006, on the financial statements of the Ishpeming Housing Commission.

1. During the review of cash and investments it was noted that the Commission had a depository agreement signed with one bank but the funds in excess of \$100,000 were not collateralized.

Recommendation

The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000. Although the Commission had depository agreements signed with one of its banks, it did not follow-up with them to verify that they had those funds in excess of \$100,000 insured. At December 31, 2005, the Commission had funds in excess of insured amounts totaling \$50,801. The Commission should require its banks to provide documentation of collateral at a minimum on a quarterly basis. It is imperative that the Commission monitor its cash and investments continuously to verify that the collateral provided by the banks is adequate throughout the year.

Ishpeming Housing Commission
August 10, 2006
Page 2

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC

Shane M. Ellison, CPA
Principal